HYDRO-QUÉBEC

FINANCIAL PROFILE 2011–2012

Hydro Québec

Executive Summary

The *Financial Profile 2011–2012* describes Hydro-Québec's financial position, financing and debt management. It also provides certain estimates.

Highlights of the report:

- The company posted a strong performance in 2011, exceeding the projections in its *Strategic Plan 2009–2013*. Net income totaled $2,611 million.
- The dividend for 2011 amounts to $1,958 million.
- Hydro-Québec is actively pursuing the development of Québec's hydropower potential. The Romaine and Eastmain-1-A/Sarcelle/Rupert jobsites are two of the largest infrastructure projects in Canada. Its transmission system — the most extensive in North America — comprises 33,630 km of lines. The company has more than four million customer accounts and its assets total nearly $70 billion.
- Hydro-Québec finances a portion of its investments through the bond market. For the last few years, our annual financing needs have been approximately $3.0 billion on average and have been met mainly on the Canadian market. In 2011, the company floated a bond issue in U.S. dollars on the global market, a first since 2001. Financing needs for 2012 are roughly $3.0 billion.
- Hydro-Québec's borrowings, which consist mostly of debentures and medium-term notes, are nearly all guaranteed unconditionally by the Québec government.

Cover
In a first for Hydro-Québec, Sarcelle powerhouse will be equipped with bulb-type generating units, in which the turbine and generator are enclosed in a watertight metal housing. This horizontal type of unit is well suited to low heads — 10 meters or so at Sarcelle — combined with heavy flows.

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PROSPECTIVE INFORMATION
This document contains statements of a prospective nature. They entail risks and uncertainties which may mean that Hydro-Québec's actual future results may differ from those forecast. These factors include, but are not limited to, competition, the economic environment, the business environment and Hydro-Québec's ability to achieve its strategic business objectives. Consequently, these prospective statements must in no way be interpreted as guarantees or assurances from Hydro-Québec as to its future results.

CURRENCY
Unless otherwise indicated, monetary amounts are expressed in Canadian dollars.

CONSOLIDATED RESULTS
Unless otherwise indicated, the analysis covers the financing activities of Hydro-Québec, including its subsidiaries and its joint ventures.

MESSAGE FROM THE VICE PRESIDENT – FINANCING, TREASURY AND PENSION FUND

Exceeding Our Objectives

In 2011, Hydro-Québec recorded net income of $2,611 million—nearly $100 million more than in 2010. This strong performance, which exceeds the projections in our *Strategic Plan 2009–2013*, will allow us to pay our sole shareholder, the Québec government, a dividend of $1,958 million.

Highlights of 2011 are as follows:

- Québec sales rose by $214 million, mainly as a result of colder winter temperatures than in 2010.
- Outside Québec, net exports were up $100 million from the previous year, as inflows in our reservoirs returned to normal. This solid growth was achieved in spite of the strength of the Canadian dollar and the decline in electricity prices in northeastern North America.
- Efficiency gains made throughout our operations were reflected in a reduction of $89 million in current operating expenses, despite the costs associated with salary indexation, general inflation related to purchases of goods and services, and growth in our activities.

We also invested $3.8 billion in expanding our generating, transmission and distribution assets, and ensuring their reliability and long-term operability, including the Energy Efficiency Plan.

FOCUSING ON HYDROPOWER DEVELOPMENT

Developing our hydroelectric generating assets was a major focus of our activities in 2011. We devoted $951 million to this effort:

- In the Baie-James region, commissioning of the generating units at Eastmain-1-A powerhouse was completed in January 2012. The three units at Sarcelle powerhouse will come on stream in 2012.
- In the Côte-Nord region, work on Romaine-2, scheduled for commissioning in 2014, proceeded as planned. This facility is the largest of the four generating stations in the Romaine complex, which will add 1,550 MW to our generating fleet once it is completed.

In addition, we allocated a total of $516 million to maintaining and upgrading our generating assets.

INVESTING IN OUR TRANSMISSION AND DISTRIBUTION SYSTEMS

In 2011, we invested $1.3 billion in expanding our transmission system; this included bringing new wind and hydropower facilities onto the grid and refurbishing transmission lines and substations.

- We obtained the necessary approvals to begin the process of connecting the Romaine project. This $1.8-billion undertaking comprises about 500 km of 315-kV and 735-kV lines, and five substations. Work got under way in 2011 and will run until 2020, when the last generating station will go into operation.

- We finished connecting all the wind farms built under our 2003 call for 1,000 MW of wind power.

Our investments in distribution totaled $950 million:

- We completed phase one of the rollout of a network of "smart" meters, with a view to establishing an advanced metering infrastructure. Between now and 2017, subject to approval by the Régie de l'énergie, 3.8 million next-generation meters will replace existing electromechanical devices as they reach the end of their useful lives. In addition to yielding savings for our customers, automated metering will allow remote operations such as outage detection, restoration of service and management of customer moves.

RETURN TO THE GLOBAL U.S. DOLLAR MARKET

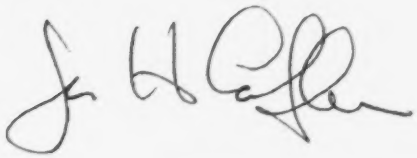
In 2011, our financing activities raised $4.6 billion on the Canadian and global markets:

- Hydro-Québec issued variable-rate notes for a total value of $2.0 billion, maturing in February 2015. In addition, the fixed-rate financing transactions performed in January, September and November, which mature in February 2050, raised $1.6 billion. These transactions were carried out on the Canadian market.
- We also took advantage of favorable market conditions to issue securities denominated in U.S. dollars, a first since 2001. In June 2011, we floated a US$1.0 billion debenture issue on the global market, bearing interest at 2.00% and maturing in June 2016.

Our borrowing program for 2012 should total approximately $3.0 billion, while investments will be around $4.7 billion over the same period.

SUSTAINED COMMITMENT

Our 2011 results attest to our commitment to our customers, our employees, our shareholder and our investors. We plan to keep up this commitment by carefully applying strategies that suit evolving business conditions, in order to achieve our financial objectives.



Jean-Hugues Lafleur
Vice President – Financing, Treasury and Pension Fund

"Our borrowing program for 2012 should total approximately $3.0 billion, while investments will be around $4.7 billion over the same period."

GENERAL INFORMATION

Hydro-Québec generates, transmits and distributes electricity. The company is made up of four divisions, with a total installed capacity of 36,971 MW.

Over 40% of Canada's water resources are in Québec. This major asset enables Hydro-Québec to use mainly renewable generating options, and large hydropower in particular. The company serves the Québec market and sells its surpluses on wholesale markets in northeastern North America.

A government-owned corporation whose sole shareholder is the Québec government, which guarantees most of its borrowings unconditionally, Hydro-Québec meets its financing needs through the bond market. At December 31, 2011, long-term debt[1] totaled $42.1 billion, including $39.6 billion in guaranteed debentures and medium-term notes.

The company is a major economic player that makes a responsible contribution to Québec society.

- $69.6 billion in high-quality assets at December 31, 2011
- 22,501 employees at December 31, 2011
- $3.8 billion in investments in property, plant and equipment and intangible assets in 2011[2]
- Approximately $100 million in annual budget for its research institute, IREQ

1. Including current portion of long-term debt and perpetual debt.
2. Including the Energy Efficiency Plan.

1

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Overview of the Divisions

HYDRO-QUÉBEC PRODUCTION

Generates power for the Québec market and sells its surpluses on wholesale markets. Is also active in arbitraging and purchase/resale transactions.

Uses water to generate 98% of its output.

- **63 generating facilities connected to the grid, including 59 hydroelectric generating stations**
- **36.8 GW in installed capacity**
- **26 large reservoirs with a storage capacity of 175 TWh**
- **579 dams**
- **97 control structures**
- **Net exports of $1,134 million in 2011 for net reservoir drawdown of 20.8 TWh**

Hydro-Québec Production's investments totaled $1,467 million in 2011.

- Of this amount, $951 million was allocated to development projects, in particular the Eastmain-1-A/Sarcelle/Rupert and Romaine projects.
- Day-to-day asset maintenance and improvements came to $516 million.

Heritage pool electricity

The activities of Hydro-Québec Production are not regulated. However, the division must provide Hydro-Québec Distribution with a base volume of up to 165 TWh of heritage pool electricity to supply Québec customers.

HYDRO-QUÉBEC TRANSÉNERGIE

Operates the most extensive transmission system in North America, serving customers inside and outside Québec.

Markets system capacity and manages power flows across the province. Works to ensure system development and asset sustainment.

Its Direction – Contrôle des mouvements d'énergie acts as Reliability Coordinator in Québec for transmission systems.

- **33,630 km of lines**
- **514 substations, including interconnections with systems in the Atlantic provinces, Ontario and the U.S. Northeast**

Hydro-Québec TransÉnergie's investments totaled $1,292 million in 2011.

- More than a third of this amount—$460 million—was devoted to increasing transmission capacity and bringing new hydropower and wind power facilities onto the grid. These projects included the construction of 315-kV lines and two substations for Eastmain-1-A and Sarcelle powerhouses, and the connection of Mont-Louis, Gros-Morne and Montagne-Sèche wind farms in the Gaspésie region.
- The remainder—$832 million—was invested in upgrading, refurbishing and modernizing assets; for example, compensators were added at Chénier and Jacques-Cartier substations to increase transmission capacity and improve power quality.

Conditions approved by the Régie de l'énergie for 2011

Transmission operations are regulated by the Régie de l'énergie on the basis of cost of service. The rates and conditions of service, also approved by the Régie de l'énergie, ensure non-discriminatory access to the system.

Capitalization	70% debt 30% equity
Return on rate base	7.205%
Return on equity	7.137%
Revenue requirement	$3,009 million
Rate base	$17,154 million

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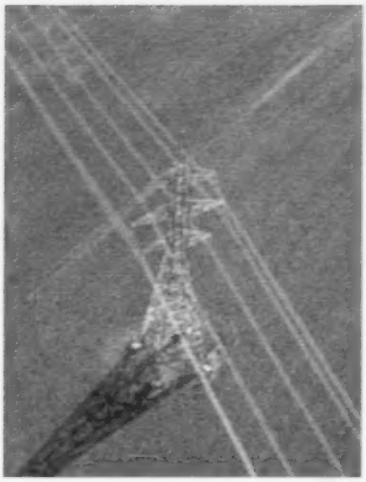

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1. La Grande-1 generating station, in Baie-James, with an installed capacity of 1,436 MW.

2. Checking the electrical connections on capacitors and reading their capacity at Saint-Maxime substation.

3. Hydro-Québec Distribution's objective: offer customers a high-quality experience on every level.

4. Conventional four-legged tower on a transmission line in the Montréal region.

HYDRO-QUÉBEC DISTRIBUTION

Ensures a reliable supply of electricity for the Québec market.

To meet needs beyond the annual heritage pool, which Hydro-Québec Production is obligated to supply at an average price of 2.79¢/kWh, the division mainly uses a tendering process. Through various initiatives, it also encourages its customers to make efficient use of electricity.

- **113,525 km of lines**
- **4,060,195 customer accounts**
- **One hydroelectric generating station and 24 thermal generating stations supplying customers on off-grid systems**
- **169.2 TWh of electricity sales in Québec in 2011**

Hydro-Québec Distribution's investments amounted to $950 million in 2011.

- Of this total, $326 million was used to meet growth in domestic demand and $312 million to ensure the long-term reliability of the distribution system.
- In addition, $217 million was invested in the Energy Efficiency Plan, which targets 11 TWh in energy savings by 2015. In 2011, the division achieved energy savings of 995 GWh, for a total of 6.2 TWh to date.

In 2011, 20,000 next-generation meters were installed as part of the rollout of an advanced metering infrastructure. Between now and 2017, Hydro-Québec plans to install 3.8 million of these meters.

Regulation of electricity distribution operations

Electricity distribution operations are regulated on the basis of cost of service. The rates and conditions of electricity service are approved by the Régie de l'énergie.

Capitalization	65% debt 35% equity
Return on rate base	7.64%
Return on equity	7.32%
Revenue requirement	$10,702 million
Rate base	$10,388 million
Rate (decrease) increase	
Effective April 1, 2011 (authorized)	(0.41)%
Effective April 1, 2012 (authorized)	(0.45)%

HYDRO-QUÉBEC ÉQUIPEMENT ET SERVICES PARTAGÉS AND SEBJ

Design, build and refurbish generating and transmission facilities, mainly for Hydro-Québec Production and Hydro-Québec TransÉnergie.

Volume of activity

- ***Construction segment*** **$2.1 billion**
  (HQESP and SEBJ)
- ***Shared services segment*** **$0.5 billion**

Main customers – Construction segment

- ***Hydro-Québec Production*** **57%**
- ***Hydro-Québec TransÉnergie*** **43%**

In 2011, the division's efforts were focused on the following projects:

- Eastmain-1-A/Sarcelle/Rupert,
- Romaine complex,
- Numerous refitting or refurbishment projects to enhance the performance of our generating assets or ensure their long-term operability,
- More than 1,200 projects to refurbish, reinforce or extend the transmission grid and integrate new wind power capacity.

Working in partnership with host communities and industry, the division offers high-quality, cost-effective solutions that apply best practices in terms of social and environmental acceptability.

- According to the Observatoire des énergies renouvelables, the Eastmain-1-A/Sarcelle/Rupert project is "a prime example of how to integrate environmental constraints."

1

Integrated Business Risk Management

Each division or corporate unit determines its main risks, and then applies mitigation measures. The consolidated portfolio of risks is presented every year to the Board of Directors which, with Management, sets the company's risk tolerance threshold and approves the necessary frameworks. To manage market and credit risks, a team of specialists that is independent of the groups carrying out the transactions continually monitors a number of risk indicators associated with financial and energy transactions, and recommends risk reduction strategies and controls.

MAIN BUSINESS RISKS AND OVERVIEW OF MITIGATION MEASURES

	Risks	Mitigation Measures
FINANCIAL RISKS	Market risk[1]	Short term: active integrated management and negotiation of derivative hedging instruments Medium and long term: matching of compensatory factors such as debts in U.S. dollars as a hedge against sales in this currency, currency swaps and interest rate swaps
	Credit risk	• Implementation and monitoring of guidelines and limits for risk concentration and level of counterparty exposure • Negotiation with counterparties with a high credit rating (95% of counterparties rated A or higher) and agreements to limit the market value of exposure to counterparties' credit risk
	Liquidity Risk[2]	• Access to preauthorized standby credit facility • Diversified portfolio of highly liquid financial instruments
GENERATION	Runoff	• Optimization of hydroelectric generating station operations to minimize water use • Reservoir storage management on a multiyear basis to maintain an adequate margin between generating capacity and overall commitments
	Risk related to marketing activities[3]	• Integrated evaluation of components of risk related to marketing activities • Monitoring of trends in wholesale markets and use of derivative hedging instruments • Equipment maintenance and upgrade programs to maximize availability
TRANSMISSION	Asset sustainment and continuity of transmission service	• Application of North American Electric Reliability Corporation and Northeast Power Coordinating Council reliability standards • Reliability coordination for transmission systems in Québec and filing of reliability standards applicable to Québec generating facilities and transmission systems with the Régie de l'énergie • Transmission asset sustainment strategy and optimal management of peak annual load
DISTRIBUTION	Asset sustainment and service quality	• Compliance with applicable standards for overhead and underground systems • Asset renewal strategy • Vegetation control • Asset maintenance program
	Fluctuations in demand for electricity due to economic situation	• Continuous improvement of method for forecasting electricity demand

1. Volatility of exchange rates, interest rates and aluminum prices
2. Difficulties in meeting commitments associated with financial liabilities
3. Runoff, volatility of electricity prices, unavailability of generating and transmission equipment

2

1. Beauharnois generating station has 38 units, stretching for nearly a kilometre, that make it one of Hydro-Québec's most powerful generating facilities.

2. The system load on our transmission grid reached 35,481 MW on January 16, 2012 at 8 a.m.

Comparison of Electric Utilities in North America

FINANCIAL DATA AND OPERATING STATISTICS (Comparison in dollars of origin) For the year ended	Canadian utilities				American utilities		
	Hydro-Québec* Dec. 31, 2010 C$	BC Hydro March 31, 2011 C$	Manitoba Hydro March 31, 2011 C$	Ontario Power Generation Dec. 31, 2010 C$	Southern Company Dec. 31, 2010 US$	Tennessee Valley Authority Sept. 30, 2010 US$	Bonneville Power Administration Sept. 30, 2010 US$
Ownership	Government of Québec	Government of British Columbia	Government of Manitoba	Government of Ontario	Public company	Government of the United States	Government of the United States
Structure	Integrated	Integrated	Integrated	Generation	Integrated	Generation/ transmission	Generation/ transmission
Operating Statistics							
Sales (in TWh)	**192.8**	100.2	31.1	88.6	196.8	173.7	76.5
• Domestic	**169.5**	50.6	20.8	N/A	196.8	N/A	N/A
• Export	**23.3**	49.6	10.3	N/A	N/A	N/A	N/A
Installed capacity (in MW)	**36,671**	12,019	5,499	19,931	42,963	34,068	8,479
Output (in TWh)[1]	**160.7**	39.6	34.1	88.6	196.0	147.4	7.0[4]
• Hydroelectric (in %)	**97.8**	99.4	100.0	34.5	2.0	9.5	78.8
• Nuclear (in %)	**2.0**	0.0	0.0	51.7	15.0	36.2	11.6
• Thermal/Other (in %)	**0.1**	0.6	0.0	13.8	83.0	54.3	9.6
Number of customer accounts (in thousands)	**4,012**	1,853	803	N/A	4,417	N/A	N/A
Total workforce[2]	**23,092**	5,805	6,799	11,800	25,940	12,457	3,100
Financial Data (in $M)							
Revenue	**12,484**	4,016	2,019	5,375	17,456	10,874	3,055
Operating income	**5,041**	1,024	575	770	3,802	2,242	116
Net income (net loss)	**2,515**	589	150	649	1,975	972	(128)
Investments[3]	**4,220**	1,483	1,166	978	4,086	2,416	684
Property, plant and equipment	**55,537**	15,211	10,964	13,555	42,002	27,830	10,220
Total assets	**65,809**	19,479	12,882	29,577	55,032	42,753	19,669
Long-term debt	**36,439**	8,851	8,335	3,843	18,154	22,389	12,442
Equity	**18,566**	2,880	2,756	8,081	16,909	5,137	2,429

1. Percentage totals may not equal 100% due to rounding.
2. For BC Hydro, full-time employees (FTE).
3. Property, plant and equipment and intangible assets.
4. Estimate.

* Certain data for 2010 have been reclassified to conform to the presentation adopted for Hydro-Québec's *Annual Report 2011*.

FINANCING

Soon after it was first established in 1944, Hydro-Québec needed to develop its generating capability significantly to meet growing electricity demand. It embarked on an extensive building phase and reached agreements to acquire independent power distributors.

Its new hydropower projects of the 1950s and 1960s (Bersimis, Carillon, Manic-Outardes, Churchill Falls) all required major financing.

1947	First major issue by Hydro-Québec: $112.5 million at 2% interest, underwritten by Canadian banks
1953	First bond issue by Hydro-Québec in the U.S.
1966	First issue of short-term notes by Hydro-Québec in the U.S.
1969	First issue in U.S. dollars on the European market; $500-million issue to finance Churchill Falls generating station; first bond issue in German marks

In the early 1970s, when construction in the Baie-James region got under way, Hydro-Québec's name was already well established on the leading financial markets (Canada, United States, Switzerland, Germany). Funds markets in the Middle East (1973–1974), private markets in Japan (1977) and the Netherlands (1982), the British public market (1981) and the ECU (European Currency Unit) section of the European markets then joined the list of buyers of securities issued by Hydro-Québec.

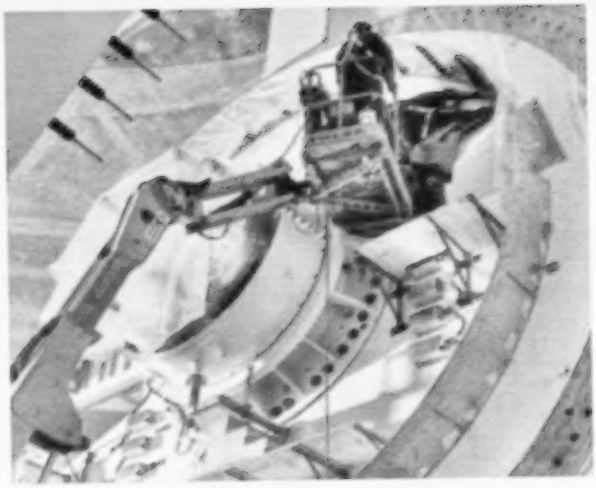
1972	First bond issue in Swiss francs
1975	First issue in Canadian Eurodollars
1976	Private offering of $1 billion in the U.S., a record amount at the time
1981	First bond issue in pounds sterling
1993	US$1.5 billion issue on the American market, a record amount at the time
2001	US$750 million bond issue on the global market
2011	US$1.0 billion bond issue on the global market, a first since 2001

◀ The Romaine project is currently one of the largest construction sites in Canada.

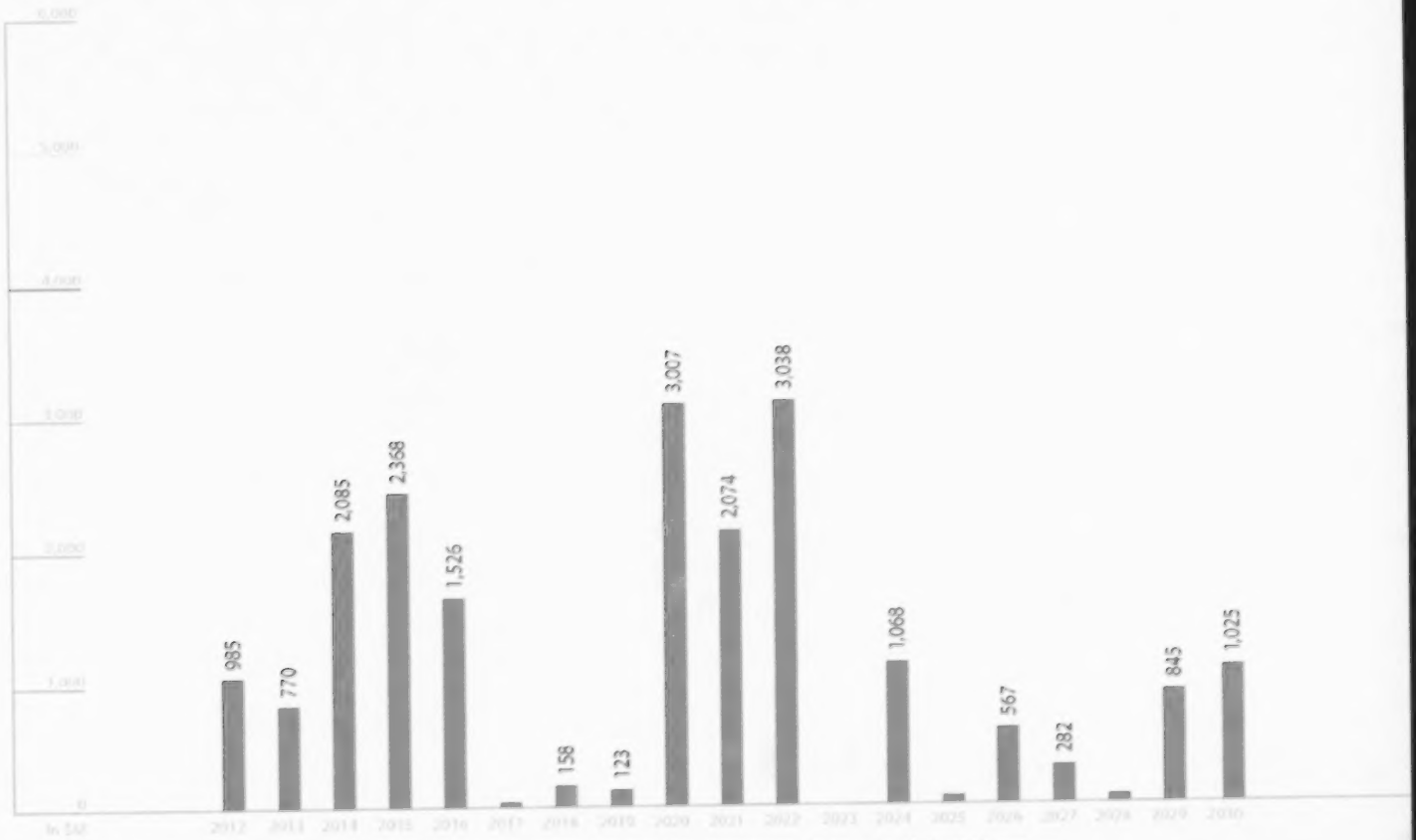
On the Romaine-2 jobsite, water from the Romaine was diverted to a temporary tunnel, allowing construction of the dam to get under way.

Financing Objectives and Strategies and Debt Management

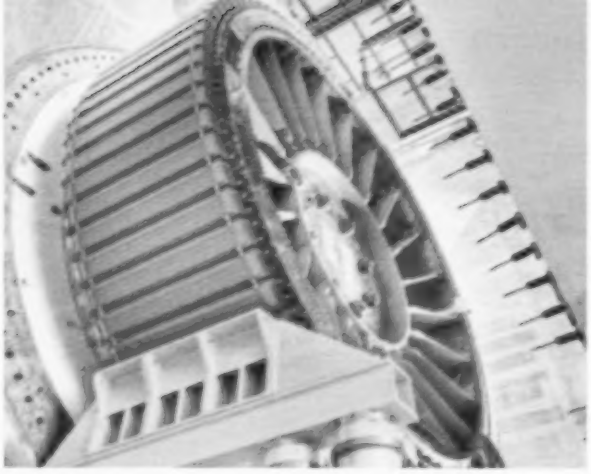
Objectives	Strategies
1. Maintain the presence and impact of Hydro-Québec on capital markets	• Plan bond issuance — in particular, series maturing in 2035, 2040, 2045 and 2050 — in order to increase market liquidity – These long-term bonds are linked to the service life of our property, plant and equipment. • Stagger debt maturities in order to maintain the annual financing program at a stable level – For the 2017–2019 period, Hydro-Québec has a certain leeway in terms of maturities — if the markets are not favorable for issuing the long-term portion, the company could issue shorter-term bonds without compromising the financing program for the following years. • Focus on strategically important capital markets, in particular the Canadian and U.S. dollar markets.
2. Diversify Hydro-Québec's funding sources while minimizing foreign exchange risk	• Maintain access to foreign capital markets, particularly the U.S. dollar market • Use swaps to hedge financing in foreign currencies • Secure financing in the lowest-cost market
3. Manage Hydro-Québec's debt effectively	• Redeem debt prior to maturity whenever such operations allow Hydro-Québec to reduce the cost of its debt



Debt Maturity
2012–2050

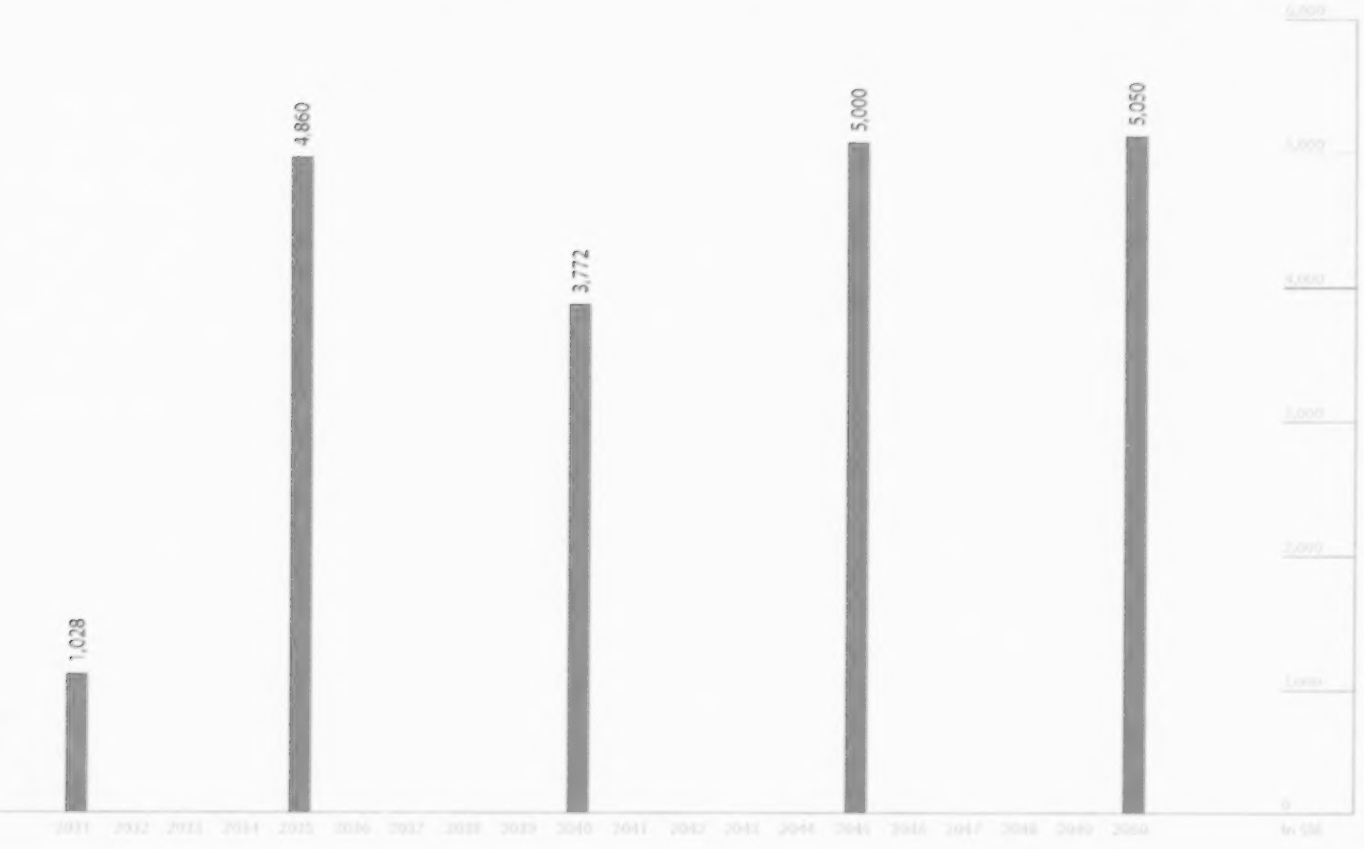


1 The above graph shows cash payments related to bond and medium-term note maturities, representing the par value of the debt as at December 31, 2011. In the financial statements, the long-term debt has been shown at the amortized cost since January 1, 2007, except for deep discount and high premium bonds, which were already shown this way prior to that date.

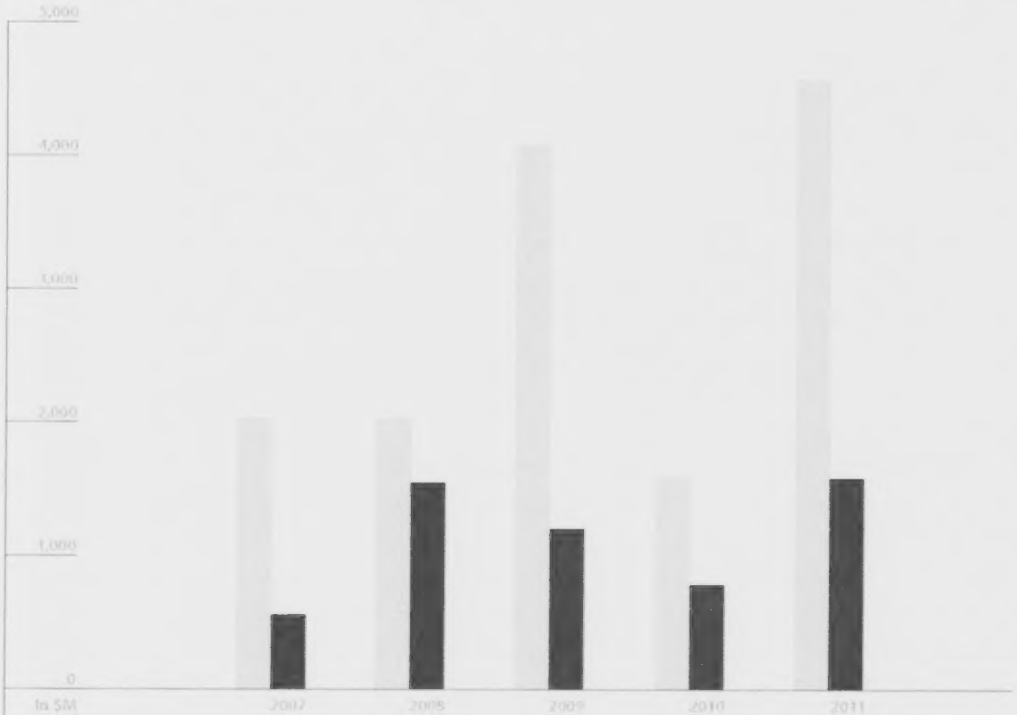


◀ Sarcelle powerhouse, a run-of-river facility, is located at the northern end of Opinaca reservoir, next to Sarcelle control structure.

This is the first time Hydro-Québec has installed bulb units, which are ideal for low heads combined with heavy flows, in one of its generating stations. Sarcelle powerhouse is equipped with three of these units.



Financing Needs 2007–2011



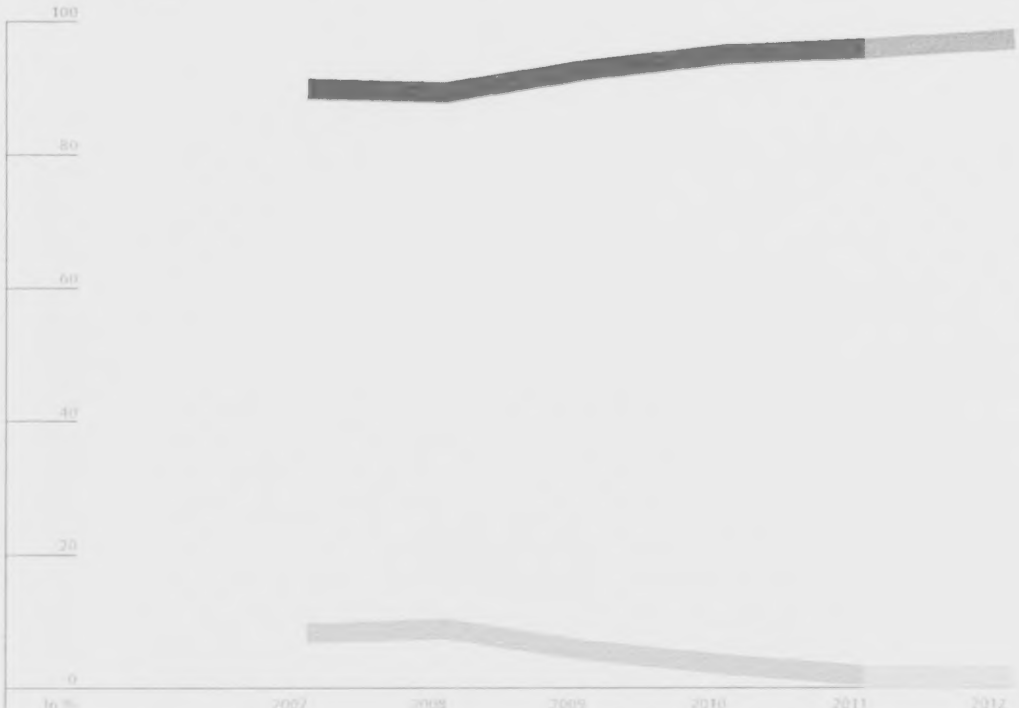
	2007	2008	2009	2010	2011
Gross borrowing[1]	2,028	2,029	4,079	1,593	**4,574**
Net borrowing	561	1,548	1,202	784	**1,583**

1. Excluding net cash receipts and payments relating to credit risk management.

Our 2012 borrowing program should reach approximately $3.0 billion.

◀ Our transmission grid is evolving in order to handle intermittent energy sources such as wind power and new uses such as electric mobility.

Breakdown of Debt by Repayment Currency 2007–2012[1]



Hydro-Québec uses swaps in particular to alter the currency breakdown of its debt.

						Forecast
Canadian dollars	90.7	90.4	93.5	95.2	**96.9**	97.6
U.S. dollars	9.3	9.6	6.5	4.8	**3.1**	2.4

1. Debt including perpetual debt and swaps. The debt and swaps are evaluated at par value and translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date.

Breakdown of Debt by Fixed and Floating Rate 2007–2011[1]

In %	2007	2008	2009	2010	2011
Fixed-rate	92.2	91.1	87.3	86.0	90.6
Floating-rate	7.8	8.9[2]	12.7[2]	14.0[2]	9.4[2]

1. The debt is translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date.
2. Excluding swaps related to credit risk mitigation.

Evolution of Components of Debt 2007–2011[1]

(in $M)

	2007	2008	2009	2010	2011[2]
Long-term debt	33,161	35,290	37,054	36,439	**40,744**
Current portion of long-term debt	1,087	770	586	1,933	**1,025**
Perpetual debt	286	355	303	288	**281**
Total	34,534	36,415	37,943	38,660	**42,050**

1. This table shows the long-term debt at amortized cost translated into Canadian dollars at the closing exchange rates in effect at the balance sheet date.
2. Exchange rate: C$/US$1.017.

◀ Hydro-Québec contributes to creating wealth in all regions of Québec: first, as an employer, with some 22,500 employees at 150 different locations, but also as a project proponent, through its large-scale investments in developing and modernizing the power system.

Average Maturity of Debt 2007–2011

	2007	2008	2009	2010	2011
Average maturity of borrowings for the year	37.6	36.8	22.2	39.3	**15.6**
Average maturity of debt	17.8	19.1	19.0	19.1	**18.9**

Hydro-Québec issues long-term bonds linked to the service life of its assets. The average maturity of borrowings for 2011 decreased relative to 2010 as a result of the issuance of debt maturing in 2015 and in 2016.

1

Sources of Financing

Type of financing	Amount authorized by the Board of Directors	Market	Maturity	Outstanding as at December 31, 2011
Credit lines	C$500 million[1] or US$500 million[1]			C$1 million
Credit facility[2]	US$2,000 million		US$360 million in 2012 US$1,640 million in 2013	–
Commercial paper[2]	US$3,500 million or equivalent in C$	United States or Canada	Max. 364 days Max. 365 days	C$16 million
Medium-term notes[2]	US$3,000 million or equivalent in other currencies	United States	9 months or longer	US$340 million[3]
	C$20,000 million or equivalent in US$	Canada	1 year or longer	C$14,283 million[3]

1. Of this amount, $397 million is covered by operating credit line agreements with financial institutions.
2. Guaranteed by the Québec government.
3. Corresponds to the net proceeds from the issue of medium-term notes.

Credit Ratings

	2011			2010		
	Commercial paper	Long-term	Outlook/ Trend	Commercial paper	Long-term	Outlook/ Trend
U.S. agencies						
Moody's	P-1	Aa2	Stable	P-1	Aa2	Stable
Fitch Ratings	F1+	AA	Stable	F1+	AA	Stable
Standard & Poor's	A-1+	A+	N/A[1]	A-1+	A+	N/A[1]
Canadian agency						
DBRS	R-1 (middle)	A (high)	Stable	R-1 (middle)	A (high)	Stable

1. Standard & Poor's does not provide an outlook for Hydro-Québec's credit rating. However, it has given the Québec government, Hydro-Québec's shareholder and guarantor, a "stable" outlook.

2

1. Sarcelle control structure in the Baie-James region.
2. Eastmain-1-A jobsite.

2011 Bond Issues

Market	Issue Date	Series	Coupon	Maturity	Amount (in C$M)	Currency	Remarks
CA	November 8, 2011	JN	5.000	February 15, 2050	500	CAD	Additional tranche of Series JN
CA	September 30, 2011	JN	5.000	February 15, 2050	500	CAD	Additional tranche of Series JN
Global	June 30, 2011	IO	2.000	June 30, 2016	1,000	USD	
CA	January 24, 2011	JN	5.000	February 15, 2050	500	CAD	Additional tranche of Series JN

2011 Issue of Medium-Term Notes

Market	Issue Date[1]	Series	Coupon	Maturity	Amount (in C$M)	Currency	Remarks
CA	February 11, 2011	0063	Floating	February 11, 2015	2,038	CAD	Quarterly Coupon: BA 3 month + 0.11%

1. In 2011, Series 0063 was reopened 23 times.

Guarantee of Hydro-Québec's Debt[1]

Hydro-Québec's long-term debt at December 31, 2011 includes $39,643 million in debentures and medium-term notes that are guaranteed unconditionally by the Québec government. Short-term borrowing programs, such as commercial paper and standby lines of credit, are also guaranteed by the government.

Certain private issues of debt securities and capital leases, totaling $939 million, are not guaranteed by the Québec government.

1. Hydro-Québec's debt guaranteed by the government does not include subsidiaries and joint ventures.

Financial Ratios

	2007	2008	2009	2010	2011
Coverage ratios					
Interest coverage[1]	2.09	2.07	2.11	1.92	**1.99**
Interest coverage before depreciation and amortization[2]	2.95	2.95	3.02	2.89	**3.00**
Liquidity ratios					
Net cash flow to fixed assets and intangible assets (in %)[3]	76.4	78.9	69.8	71.5	**91.4**
Self financing (in %)[4]	63.7	45.7	41.3	46.8	**47.6**
Funds from operations to average total debt (in %)[5]	14.1	13.8	13.3	12.7	**12.5**
Profitability ratios					
Profit margin from continuing operations (in %)[6]	22.3	22.8	23.5	20.1	**21.1**
Return on equity (in %)[7]	17.8	18.1	16.5	14.0	**14.0**
Capital structure ratios					
Capitalization (in %)[8]	33.1	33.4	32.6	32.1	**31.0**
Dividend[9,10] (in $M)	2,095	2,252	2,168	1,886	**1,958**

1. Sum of operating income and net investment income divided by gross interest expense.
2. Sum of operating income before depreciation and amortization and net investment income divided by gross interest expense.
3. Income from continuing operations before depreciation and amortization, less write-offs and dividend paid, divided by investments in property, plant and equipment and intangible assets (including the Energy Efficiency Plan).
4. Cash flows from operating activities less dividend paid, divided by the sum of cash flows from investing activities, excluding net disposal (acquisition) of short-term investments, and repayment of long-term debt and sinking fund.
5. Income from continuing operations before amortization and capitalized financial expenses less write-offs, divided by the sum of long-term debt (including current portion), perpetual debt, borrowings and derivative instrument liabilities, less derivative instrument assets (average for the year).
6. Income from continuing operations divided by revenue.
7. Net income divided by average equity less average accumulated other comprehensive income.
8. Equity divided by the sum of equity, long-term debt (including current portion), perpetual debt, borrowings and derivative instrument liabilities, less derivative instrument assets.
9. Dividend declared for a given year is paid the following year.
10. No dividend may be declared in an amount that would have the effect of reducing the capitalization rate to less than 25% at the end of the year.

Note: Certain comparative figures have been reclassified to conform to the presentation adopted in the current year, ended December 31, 2011.

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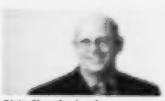

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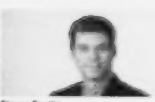

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HYDRO-QUÉBEC'S GENERATING FACILITIES[1]

	Commissioning	Installed capacity in MW
Hydroelectric generating stations		
Robert-Bourassa	1979–1981	5,616
La Grande-4	1984–1986	2,779
La Grande-3	1982–1984	2,417
La Grande-2-A	1991–1992	2,106
Beauharnois	1932–1961	1,906
Manic-5	1970–1971	1,596
La Grande-1	1994–1995	1,436
René-Lévesque (Manic-3)	1975–1976	1,244
Bersimis-1	1956–1959	1,178
Jean-Lesage (Manic-2)	1965–1967	1,145
Manic-5-PA	1989–1990	1,064
Outardes-3	1969	1,026
Sainte-Marguerite-3	2003–2004	882
Laforge-1	1993–1994	878
Bersimis-2	1959–1960	869
Eastmain-1-A	2011–2012	829
Outardes-4	1969	785
Carillon	1962–1964	753
Toulnustouc	2005	526
Outardes-2	1978	523
Eastmain-1	2006	507
Brisay	1993	469
Péribonka	2007–2008	405
Laforge-2	1996	319
Trenche	1950–1955	302
La Tuque	1940–1955	294
Beaumont	1958–1959	270
McCormick	1951–1965	235
Rocher-de-Grand-Mère	2004	230
Paugan	1928–1956	213
Rapide-Blanc	1934–1955	204
Shawinigan-2	1911–1929	200
Shawinigan-3	1948–1949	194
Manic-1	1966–1967	184
Rapides-des-Îles	1966–1973	176
Chelsea	1927–1939	152
La Gabelle	1924–1931	131
Première-Chute	1968–1975	131
Rapides-Farmer	1927–1947	104
Les Cèdres	1914–1924	103
Rapides-des-Quinze	1923–1955	103
Other (19 generating stations rated less than 100 MW)[2]	1910–2009	801
		35,285
Thermal		
Bécancour, La Citière and Cadillac (gas turbine)	1976–1993	881
Other (24 diesel plants)[2]	1946–2010	130
		1,011
Nuclear		
Gentilly-2	1983	**675**
Total		**36,971**

1. In addition to the generating capacity of its own facilities, Hydro-Québec has access to almost all the output from Churchill Falls generating station (5,428 MW) under a contract with Churchill Falls (Labrador) Corporation Limited that will remain in effect until 2041. It also purchases all the output from 12 wind farms (919 MW) and 3 small hydropower plants (23 MW) operated by independent power producers. Moreover, 1,215 MW are available under long-term contracts with other suppliers.
2. Hydro-Québec Distribution operates one hydroelectric generating station and 24 thermal generating stations supplying customers on off-grid systems.

GLOSSARY

Bulb-type unit
In a first for Hydro-Québec, Sarcelle powerhouse will be equipped with bulb-type generating units, in which the turbine and generator are enclosed in a watertight metal housing. This horizontal type of unit is well suited to low heads—10 meters or so at Sarcelle—combined with heavy flows.

Capacitor
An electrical device used to store electric energy and regulate current.

Control structure
A structure creating a reservoir whose water is released into a river in order to regulate or modulate its flow.

Dividend
Under the *Hydro-Québec Act*, the dividends to be paid by Hydro-Québec are declared once a year by the Québec government, which also determines the terms and conditions of payment. For a given financial year, the dividend cannot exceed the distributable surplus, equal to 75% of net income. This calculation is based on the consolidated financial statements.

Energy
A quantity that describes the ability of a system (hydroelectric, thermal, etc.) to do work during a given time and is measured in watthours (Wh). In hydroelectric facilities, the motive power of water is the energy used to operate the turbines and generate electricity. A 1-MW turbine operating at full capacity for one hour will produce 1 MWh of energy. Operating at half capacity for one hour, the same turbine will produce 0.5 MWh.

Government-owned corporation
The Québec government established the Québec Hydro-Electric Commission (Hydro-Québec) in 1944, and went on to nationalize electricity in 1963. The company's share capital of $4.4 billion is held by its sole shareholder, the Québec government. Hydro-Québec is not listed on the stock exchange. It meets its financing needs through the bond market and pays dividend to its shareholder, when applicable.

Inflows
All surface and underground runoff from a drainage basin.

Installed capacity
Total rated capacity that a facility's generating equipment can supply. It is generally expressed in megawatts (MW).

Large hydropower
A category of hydroelectric facilities with a capacity of more than 50 MW, as compared to small hydro, with a capacity of 50 MW or less.

Rate base
The value of assets required to offer a distribution or transmission service upon which Hydro-Québec's regulated divisions are permitted to earn a specified reasonable rate of return as established by the Régie de l'énergie.

Régie de l'énergie
In Québec, a regulatory body whose mission consists in promoting the satisfaction of the energy needs of Québec consumers through sustainable development, in accordance with economic, social and environmental concerns, as well as individual and collective equity. The Régie also balances the public interest, consumer protection and fair treatment of distributors.

Renewable energy
Any natural energy source that is theoretically inexhaustible (solar, wind, tidal and water power) as opposed to fossil fuels which cannot be readily replenished.

Revenue requirement
Revenues required in order for capital and operating costs to be recouped through activities regulated by the Régie de l'énergie.

Runoff
Ratio between inflows observed during a given period (generally one year) and average inflows observed during the same period over a large number of years (average year).

UNITS OF MEASURE

kV
kilovolt
(unit of voltage)

MW
megawatt
(unit of power)

kWh
kilowatthour
(unit of energy)

MWh
megawatthour, or one thousand kilowatthours

GWh
gigawatthour, or one million kilowatthours

TWh
terawatthour, or one billion kilowatthours

$M
millions of dollars

$B
billions of dollars

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Library and Archives Canada
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ISSN 0821-1760
ISBN 978-2-550-63883-4
ISBN 978-2-550-63884-1 (PDF)
2012G005A

Ce document est également publié en français.

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CUE CARD
2011–2012

Hydro-Québec generates, transmits and distributes electricity. It uses mainly renewable energy sources, in particular large hydropower, and supports the development of other generating options — such as wind energy, biomass and small hydro — through purchases from independent power producers. Its transmission and distribution activities are regulated by the Régie de l'énergie. It conducts research and develops new technologies in energy-related fields. It also actively promotes energy efficiency.

Hydro-Québec's sole shareholder is the Québec government, which guarantees most of its borrowings.

KEY ASSETS

Water used to generate **98%** of output	**26** large reservoirs with a storage capacity of **175 TWh**	**36,971 MW** in installed capacity	Average cost of **2.11¢** per kilowatthour

Rates among the lowest in North America

CONSOLIDATED FINANCIAL INFORMATION[1]

(in millions of $)	2011	2010	2009	2008	2007
OPERATIONS					
Revenue	**12,392**	12,484	12,217	12,646	12,442
Expenditure					
Operations	**2,571**	2,579	2,527	2,502	2,556
Electricity and fuel purchases	**1,224**	1,390	1,207	1,406	1,555
Depreciation and amortization	**2,623**	2,565	2,286	2,316	2,228
Taxes	**866**	909	928	1,093	820
	7,284	7,443	6,948	7,317	7,159
Operating income	**5,108**	5,041	5,269	5,329	5,283
Financial expenses	**2,497**	2,526	2,398	2,443	2,510
Income from continuing operations	**2,611**	2,515	2,871	2,886	2,773
Income from discontinued operations	**–**	–	–	129	25
Net income	**2,611**	2,515	2,871	3,015	2,798
DIVIDEND	**1,958**	1,886	2,168	2,252	2,095
BALANCE SHEET SUMMARY (as at December 31)					
Total assets	**69,637**	65,809	64,918	62,850	61,107
Long-term debt, including current portion and perpetual debt	**42,050**	38,660	37,943	36,415	34,534
Equity	**18,834**	18,566	18,419	18,250	17,206
INVESTMENTS FOR CONTINUING OPERATIONS AFFECTING CASH					
Property, plant and equipment and intangible assets[2]	**3,814**	4,220	4,307	3,954	3,590
FINANCIAL RATIOS					
Interest coverage	**1.99**	1.92	2.11	2.07	2.09
Return on equity (in %)	**14.0**	14.0	16.5	18.1	17.8
Profit margin from continuing operations (in %)	**21.1**	20.1	23.5	22.8	22.3
Capitalization (in %)	**31.0**	32.1	32.6	33.4	33.1
Self-financing (in %)	**47.6**	46.8	41.3	45.7	63.7

1. Certain comparative figures have been reclassified to conform to the presentation adopted in the current year, ended December 31, 2011.
2. Including the Energy Efficiency Plan.

OPERATING STATISTICS AND OTHER INFORMATION

Average rate (decrease) increase from January 1 to December 31 (in %)	**(0.2)**	0.6	1.6	2.7	2.8
Installed capacity (in MW)[1]	**36,971**	36,671	36,813	36,432	35,654
Customer accounts (in thousands)	**4,060**	4,012	3,960	3,913	3,869
Employees as at December 31	**22,501**	23,092	23,000	22,916	23,069

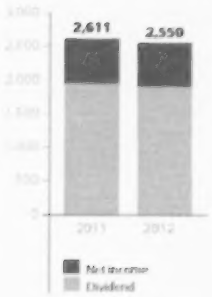
1. In addition to the generating capacity of its own facilities, Hydro-Québec has access to almost all the output from Churchill Falls generating station (5,428 MW) under a contract with Churchill Falls (Labrador) Corporation Limited that will remain in effect until 2041. It also purchases all the output from 12 wind farms (919 MW) and 3 small hydropower plants (23 MW) operated by independent power producers. Moreover, 1,215 MW are available under long-term contracts with other suppliers.

HIGHLIGHTS

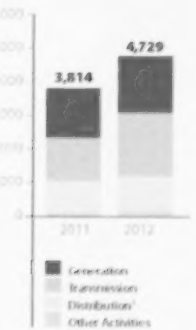
- Return to the global market with a US$1.0 billion debenture issue, maturing on June 30, 2016 and bearing interest at 2.00%. This was Hydro-Québec's second global issue denominated in U.S. dollars; the first was in 2001.
- In the Baie-James region, Eastmain-1-A powerhouse was commissioned. The three units at Sarcelle powerhouse will follow suit in 2012.
- Work on the 640-MW Romaine-2 generating station, scheduled to come on stream in 2014, is proceeding as planned.

FINANCIAL OUTLOOK

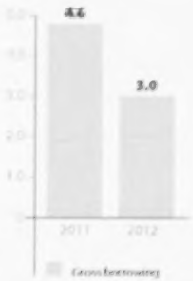
NET INCOME AND DIVIDEND
(in millions of C$)



INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS[1]
(in millions of C$)



FINANCING NEEDS
(in billions of C$)



1. Including the Energy Efficiency Plan.

HYDRO-QUÉBEC: A QUALITY INVESTMENT

Security	Characteristics of the Debt as at December 31, 2011
Unconditional guarantee by the Québec government on most of Hydro-Québec's debt (debentures, medium-term notes, commercial paper)	Average term: 18.9 years
	Fixed rate: 90.6%
	Floating rate: 9.4%
	Breakdown by repayment currency: C$ 96.9% US$ 3.1%

Credit Ratings as at December 31, 2011

	Long-term debt	Commercial paper
Moody's	Aa2 stable	P-1
Standard & Poor's	A+	A-1+
Fitch Ratings	AA- stable	F1+
DBRS	A (high) stable	R-1 (middle)

For more information, please consult our Web site: **www.hydroquebec.com/financing**
You can also contact the Investor Relations team by e-mail: **rel.inv@hydro.qc.ca**

Ce document est également publié en français.

Hydro Québec

March 2012
2012G005A-1

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